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MBJ:MFI:D4  
 M Field

4 August 2009

**REPORT TO THE MEMBERS OF THE COMMITTEE OF INSPECTION**

**COMPASS RESOURCES LIMITED ACN 010 536 820 ("CMR")  
 (SUBJECT TO DEED OF COMPANY ARRANGEMENT)  
 (RECEIVERS AND MANAGERS APPOINTED)  
 (Formerly Compass Resources NL)**

We refer to the above matter and our last Report dated 17 June 2009, the meeting of the Committee on 19 June 2009 and our Circular to Creditors dated 23 June 2009.

ADELAIDE  
 BRISBANE  
 NEWCASTLE  
 MELBOURNE  
 SYDNEY  
 HONG KONG  
 JAKARTA  
 KUALA LUMPUR  
 MANILA  
 MUMBAI  
 SHANGHAI  
 SINGAPORE  
 TOKYO

**1. Overview of Actions**

Following is an updated table of progress and expected timings of key dates in the DOCA reconstruction process, with further updates to be provided to the Committee in due course and commentary addressing recent events and schedule slippage below in this Report:

Affiliated through  
 Zolfo Cooper  
 and  
 Kroll Worldwide  
 UNITED STATES  
 UNITED KINGDOM

Overview of updated expected DOCA outcomes	Timing
Engaged Sulphide consultants	14/07/2009
Engaged tenement valuers	15/07/2009
Payment of employee entitlements	6/08/2009
Finalisation of Information Memorandum for assets - potentially split into three categories: Peru; Raptor/Alkane; JV assets	14/08/2009
Initiate a marketing program for expressions of interests	15/08/2009
Response to shareholder claims	28/08/2009
Information available as to Oxide remedial engineering works - not costed	31/08/2009
Closing date for initial expressions of interests	15/09/2009
Information available as to Oxide remedial costs and expected outcomes for JV interest	30/09/2009
Progress due diligence of identified "key parties", to close	31/10/2009
Valuation of tenements expected	31/10/2009
Unconditional offers for Capital Partnerships and/or purchase of assets	14/11/2009
Court determination as to Quistclose	After Oct 09
Settlement of consideration (subject to terms ultimately)	15/01/2010
Dividend to unsecured creditors	First Qtr 2010



## 2. Non-JV Assets

An update in respect of the range of non-JV assets which are addressed under relevant subheadings below.

### a) *Bank Accounts*

The Quistclose trust issue has progressed with NT Controls and Automation, a Compass Mining Pty Ltd ("CMPL") creditor, having agreed to argue in favour of the Quistclose trust, as Contradictor to the Deed Administrators' Court application in relation to the funds previously received by CMR pursuant to the HNC Convertible Note Facility Agreement ("Note") and the Deed Administrators' draft affidavit being well advanced.

The Deed Administrators will be seeking the Court's directions as to:

1. whether a Quistclose trust exists in relation to the \$5,326,896 balance of funds pursuant to clause 6 of the Note; and
2. in the event that a Quistclose trust does exist, how the Quistclose trust funds are to be allocated, be it:
  - a. employee entitlements, consistent with the bank account settlement with HAR;
  - b. rents;
  - c. past/existing Oxide JV creditors (such as the Contradictor); and/or
  - d. other current/future CMR Oxide JV obligations.

Accordingly, HNC, HAR, the former Darwin landlord, and the Contradictor will be invited to make submissions to the Court in respect of their potential interest in the outcome.

An estimated schedule, which is subject to feedback from the Contradictor in due course, for the program of the progress of the Court application is provided below:

Date	Action
5 August 2009	Deliver draft of application and affidavit in support to solicitors for contradictor
by 14 August 2009	Agree factual information and form of application with solicitors for contradictor. Obtain confirmation that AAR will accept service of proceedings in Australia on behalf of HNC
21 August 2009	File and serve application
4 September 2009	First return of Application, at which time, matter is hopefully set down for hearing. Will depend on whether there are any other appearances and attitude and availability of Court.
after October 2009	Matter to be listed – depending on Court availability



b) **Security Deposits**

On 31 July 2009, we received Formal Proof of Debt ("FPOD") forms from NT Power and Water Corporation for \$5.25M, claimed as the balance of the electricity supply contract claim in excess of the \$6.3M bank guarantee, the term deposit for which had been advanced 50% by CMR (and 50% by HAR). We are considering legal advice in relation to FPOD, as we would expect are HAR.

A range of other guarantees, totalling \$990k remain in place with the ANZ and we will report further on these as we have information to hand.

c) **3 parcels of land**

These properties were purchased by CMR, without reference to the JV Agreements. They are in the general vicinity of the Oxide mining operations and HAR (as a JV party at the last JV meeting) have expressed the view that same may be subject to certain JV obligations.

d) **Non-JV mineral tenements**

Tenement valuers have been engaged. We expect to receive a valuation of the NSW and Peru tenements by 31 August 2009 and the NT tenements late in October 2009.

A draft version of the Information Memorandum ("IM") will be made available to the Committee later this week.

Following is a guide as to processes undertaken and being undertaken by, and in consultation with the CMR Geological team with a view to marketing of all the CMR mineral assets. At that date of this report, the following work has been completed:

- Basic Information Memorandum geological summaries completed for all geological assets (NT oxide, NT Sulphide, NT Uranium, NSW NW tenements, NSW central tenements, Peru tenements).
- Expanded summary documents completed ready to dispatch to interested parties. Some field work completed on NT uranium properties.
- Visited and made presentation to the NT Mines Department to bring them up to date with status and progress of the CMR tenements. Generated and submitted all reports, renewals, etc required to keep the NT tenements in good standing.
- Developed list of likely candidates to approach compiled for NT Uranium, NW NSW tenements and Central NSW tenements. Awaiting permission to dispatch initial data to candidates.



- Discussions with a party, ready to progress a capital raising and who is interested in the NW NSW tenements or JV of same, which CMR staff recommend as the best way to get value from these tenements. The Deed Administrators are further discussing the merits of this as against the DOCA “test the market” approach.
- Visited and made presentation to NSW Mines Department regarding Company situation and current status of tenements. Generated and submitted all reports, renewal reports renewals, etc required to keep the NSW tenements in good standing.
- Continue to compile historical exploration data on NSW tenements (with the potential JV in the NW we are now focusing on the central NSW tenements. This work helps us with the Mines Department and allows a proper evaluation of the tenements for sale, JV, additional work or relinquishment. Better quality geophysical images are being sought to assist this work.

The proposed work to be undertaken in the next three months is set out as follows:

#### **August**

- Obtain authority to initiate marketing campaign and to approach potential JV partners for Uranium assets, Peru tenements, central NSW tenements and dispatch information to same upon receipt of confidentiality deeds from interested parties.
- Discussions/presentation to tenement valuer.
- Complete historical data compilation for central NSW tenements, receive updated geophysical images for NSW tenements.
- Generate and submit all reports, renewals, etc required to keep the NT and NSW tenements in good standing.

#### **September**

- Complete upgrade of historical uranium exploration data for NT tenements and upgrade of geophysical images for NT tenements. This will take most of the month and is required for presentation to potential JV partners/purchasers to maximize value.
- Closing date for initial expressions of interest in Peru tenements, central NSW tenements and NT Uranium tenements – mid September.
- Presentation, review of data with interested parties.
- Generate and submit all reports, renewals, etc required to keep the NT and NSW tenements in good standing.

#### **October**

- Presentation and review of exploration data with interested parties (including the NT Uranium tenements). Field visits to NT with interested parties.
- Review status of all tenements.
- Generate and submit all reports, renewals, etc required to keep the NT and NSW tenements in good standing.



### **3. JV Assets**

The next JV meeting is expected to be in Darwin in late August 2009 at which time we expect to receive information on the engineering works required to rectify the Oxide plant, however we understand the works will not be costed at that time.

The Deed Administrators' Oxide facility plant valuation is now complete. We have not provided details within this Report given the sensitive nature of same and the fact that the plant value is impacted significantly by the outcome of remedial works and will be put into proper context only as more information comes to hand.

The timing on the NT tenement valuation reflects the status of the remedial works for the Oxide plant, which will in turn, feed into the net present value of the projects to CMR. When the expected mine outturn rates are known, we will consider the CMR internal model for the net present value of the projects' expected future cash flows. Aside from our tenement valuer, we do not anticipate engaging a third party independent expert to report upon the value of the Oxide and Sulphide JVs.

We are progressing the run of an updated Sulphide resource model and to have the pre-feasibility study issued as a "final draft" identifying potential improvements to capital costs by mid-September 2009. We note that this exercise is run independently of the Sulphide JV Operator's (HAR) processes in respect of same and that HAR's focus in recent months has been remedying the Oxide operations.

We will be seeking advice from HAR as to the basis of the continuing role of the Receiver and Managers appointed over the CMR JV assets. We are not aware of any active participation by the Receivers since HAR assumed the role of JV operator other than receipt of the proceeds from the sale of CMR copper and some handover issues, including finalisation of accounts.

### **Marketing Program**

With the benefit of some pre-market testing of the CMR assets with brokering houses and other advisers known to CMR and the Deed Administrators, we have delayed the initiation of the marketing campaign for the sale of the CMR assets or an equity participant therein. That said, we expect to have a finalised campaign ready to implement mid-August, with a schedule for due diligence expected to run until the end of October, to provide for delivery of other benchmarks against which we can test the assets and sufficient information to form the basis of investment decisions.

### **4. Employees**

We are adjudicating upon a range of claims, outside of those previously provided for, but which we expect to resolve later this week and to pay out all employee entitlements this week. The most significant variance in the claims stems from the termination of CMR staff and their prompt re-engagement by HAR as the new operator, potentially giving rise to payment in lieu of notice in the vicinity of \$200,000. We will report further on this matter in due course, including ways by which the impact on CMR of this event may be reduced.



## 5. Shareholder Claims

Since the last Committee meeting, we have provided the shareholder representative a brief update as to the basis upon which shareholder claims may be founded (generally), and identifying three issues which need to be carefully distinguished as follows:

- a. shareholders may have a claim against CMR (subject of proof of loss) if they can show that by ASX releases or otherwise (or a failure to disclose market sensitive information), they were misled as to the status of CMR and, in reliance on that misleading information, they acquired shares in CMR (or failed to sell shares in CMR);
- b. however, if the board of CMR, management or third party contractors contributed to or were the cause of, to use shareholders' words 'the misadventure surrounding Browns' and that contribution or cause was actionable (eg a breach of duty or negligence), then any claim which might be available would be a claim by CMR against that party, and would not, except in exceptional circumstances, be a claim available to the shareholders themselves. Of course, if, as Deed Administrators, we were to cause CMR to pursue that claim, any proceeds would be available to all creditors of CMR (including any shareholders whose proofs of debt are admitted on the basis of a claim of the nature referred to at (a)); and
- c. of course, there is some real 'cross-over' between the investigation into the 'misadventure surrounding Browns' referred to at (b) above and the claims of shareholders contemplated at (a) above. That is, the directors of CMR had an obligation to keep the market adequately informed and, as a consequence, if the problems at Browns:
  - i. were not communicated to the market in a timely way;
  - ii. were not communicated at all, and those problems were market sensitive; or
  - iii. were communicated in a misleading way,

then the shareholders will have an argument that they were misled, and they will have an entitlement to prove as creditors, subject to proof of reliance and loss. In order to work out whether the market communications were timely and accurate, it is therefore necessary to understand what was happening at the plant and, therefore, what should have been communicated and when.

We communicated to shareholder claimants that there were a number of objectives in writing to creditors seeking FPODs, including, to obtain from shareholder claimants a representative sample of the sorts of claims and matters alleged. We anticipated that these claims would ultimately fall into a small number of broad categories and, with that knowledge, we would be able to focus our investigations. If the claims of a sub-set of (or all) shareholders are found to be valid and are admitted, then we will correspond with all registered shareholders who, in light of the information disclosed in our investigations and our analysis of the representative



FPODs from shareholders, we consider may also have a claim. However, our first step is to investigate on the known claims.

In the event that our investigations show that a claim exists as a result of announcements (or lack of announcements or otherwise) at a point in time, valid shareholder claimants would be those who:

- a. have invested after that point in time, in reliance on the announcement (and who have suffered a loss); or
- b. can show that they would have sold shares, but for the announcement (and who have suffered a loss).

Shareholders who invested prior to that time (ie. who therefore did not rely upon the potentially false/misleading information when making their investment) would have a more difficult claim, because they will have to show that they would have sold 'but for' the misleading information. It is clear that CMR did make a number of 'downbeat' announcements, so that shareholders would have to explain why they would have sold but for the 'misleading' announcement, but did not sell in the face of subsequent adverse announcements. Further, shareholders seeking to rely upon "early" potentially erroneous announcements (or who continued to hold shares after such announcements), had an opportunity to reconsider their investment with each subsequent announcement (including deteriorating financial accounts). Further, there are real complications around quantification of loss for shareholders who continued to hold shares. That is, if, for instance, a misleading announcement had been made, what impact would such an announcement have had on the share price (ie assuming many shareholders would have sold as a consequence, the price would have gone down and, therefore, at what price could the shares have been sold?)

The Sons of Gwalia case involved, in essence, a failure to advise the market of information which would have caused the share price to drop to a nominal amount. The basis of the CMR shareholder claims is far more complex, seeking to rely upon a range of alleged mis-statements over a long period of time. The issue of causation between one or many such statements and the actual loss, given the timing and opportunity to exit the investment, may be problematic (assuming for the moment, which we obviously cannot, that the CMR statements were false at a particular point in time and that it was reasonable for the shareholder to rely upon same).

In terms of a forensic investigation into the, "misadventure surrounding Browns":

- a. We again confirmed that we would be seeking feedback from HAR (as the new operator of the JV) in relation to whether there were any flaws in the project which should have been picked up and reported upon in a more timely manner.
- b. It will require significant further work to consider the potential divide between:
  - i. what was actually occurring on site; and
  - ii. the comments made to shareholders in relation to the project and the directors' knowledge at each point in time.



- c. The most thorough approach, suggested by shareholders, would also include a detailed engineering overview.
- d. The cost of a full forensic investigation of "what went wrong" cannot be ignored.
- e. We have informed creditors that, subject to any future feedback from HAR and the outcomes of the review of shareholder claims, we will consider whether or not it is appropriate for the costs of a forensic or project management review of the history of the construction of the Oxide plant. We will obviously seek the input of the Committee of Inspection in relation to this question.
- f. Subject to the Court's view of the alleged Quistclose trust, and having regard to the other costs associated with maintaining, preserving and maximising the return to creditors from the CMR assets, if undertaken on a very detailed level, the costs of such a full forensic review has the potential to:
  - i. consume a significant proportion of the funds that would otherwise be distributed to creditors; and/or
  - ii. result in CMR's assets being put on the market in the scenario of a serious "firesale" and thereby significantly reduce the prospects of relisting CMR on the ASX. That said, we are undertaking a high level review of the project history, concurrent with our review of the shareholder claims and we will make that information available, as appropriate, to enable an informed decision to be taken as to the way forward.

Subject to our review of the shareholder claims and issues pertinent thereto, and the feedback from HAR in relation to the remedial works required, we will consider whether or not it is appropriate for the Deed Administrators to reduce the assets presently available for creditors with a forensic or project management review of the history of the construction of the Oxide plant.

We expect to be in a position to provide shareholders with responses to the issues raised in their claims later this month.

## 6. Committee Meeting

Further to our notice sent to you by email on Friday 31 July 2009, we look forward to meeting with you on **Thursday 6 August 2009 at 9.00 am EST** to discuss the issues facing CMR. A proxy form is enclosed for your consideration. Teleconference details were outlined on the notice. In the event that you have any difficulty establishing a connection, or should you have any queries in relation to the above, please contact me or Malcolm Field (08 9214 1441 or 0401 302 923) of this office.

A handwritten signature in black ink, appearing to read 'M Jones', written over a horizontal line.

MARTIN JONES  
Joint and Several Deed Administrator of  
Compass Resources Limited

Encl.

FORM 529A

Paragraph 5.6.12(2)(a)

CORPORATIONS ACT 2001

NOTICE OF SECOND MEETING OF  
COMMITTEE OF INSPECTION

COMPASS RESOURCES LIMITED  
(SUBJECT TO DEED OF COMPANY ARRANGEMENT) (RECEIVER AND MANAGERS APPOINTED)  
ACN 010 536 820

1. Notice is given that a meeting of the Committee of Inspection of the company will be held at the offices of **Ferrier Hodgson, Level 13, 225 George Street, Sydney NSW on 6 August 2009 at 9.00 am (EST).**
2. The purpose of the meeting is to discuss:
  - a. Confidentiality and conflict of interest;
  - b. Report to the Committee;
  - c. The progress of the Administration to date generally; and
  - d. Any other matters.

Phone conference facilities are available as follows:

Australian Toll Free Number: 1800 461 861  
International Dial In (in case of technical difficulty) (All): +61 3 8628 3623  
Account Number: 75218521  
Guest Pin: 7890

When you dial in, please follow the prompts, in doing so, you will be required to enter the pin as above.

DATED this 31st day of July 2009.



MARTIN JONES  
Joint and Several Deed Administrator of  
Compass Resources Limited

CORPORATIONS ACT 2001
APPOINTMENT OF PROXY COMMITTEE OF INSPECTION MEETING

COMPASS RESOURCES LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
ACN 010 536 820

\*I/\*We (1) .....
of.....
a member of the Committee of Inspection of Compass Resources Limited, appoint (2) .....
or in his absence .....
as \*my/our \*general/special proxy to vote at the meeting of the Committee to be held on 6 August
2009, or at any adjournment of that meeting.(3)

DATED this day of 2009.

Signature (4) of individual or person (5) authorised by corporate resolution to represent the corporation OR The Common Seal (6) of was hereunto affixed in the presence of:

Director

Secretary

CERTIFICATE OF WITNESS (7)

I, ..... of ..... certify that the above instrument appointing a proxy was completed by me in the presence of and at the request of the person appointing the proxy and read to him or her before he or she signed or marked the instrument.

DATED this day of 2009.

Signature of Witness

Description

Place of Residence

\* Strike out if inapplicable

- (1) If a firm, strike out "I" and set out the full name of the firm.
(2) Insert the name, address and description of the person appointed.
(3) If a special proxy add the words "to vote for" or the words "to vote against" and specify the particular resolution.
(4) The signature of the creditor is not to be attested by the person nominated as proxy.
(5) Note that a corporation may by resolution of its directors provide standing authority for a person to represent it at members meeting and appoint proxies (Section 249(3)& (5)). Copy of authority to be annexed.
(6) The method of affixing the Common Seal should be prescribed by the creditor corporation's articles. See Note (5).
(7) This certificate is to be completed only if the person giving the proxy is blind or incapable of writing. The signature of the creditor, contributory, debenture holder must not be witnessed by the person nominated as proxy.